Review: 4228 Statewide Single Audit Year Ended June 30, 2004 Department of Employment Security

04-11. The auditors recommend IDES review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. IDES year-end procedures should include monitoring Federal program expenditures more timely so they can identify and notify the State's auditors of all programs requiring an audit in accordance with OMB Circular A-133. (Repeated-2002)

<u>Findings</u>: IDES does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely. Additionally, as a result of this inadequate process, an additional major program administered by IDES that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

In discussing this with IDES officials, they stated the financial statements are based on a GAAP package which was submitted on September 10, 2004, with a brief approved extension granted by the Comptroller's office. The extension in part was due to issues in reporting current and previous years' data related to the transfer of the WIA program to DCEO. The final GAAP was received on November 16th from the IOC with a memo dated November 13, and the Final Financial statements were completed on November 16, 2004.

The error in calculating the TRA program as a major program is due to separate funding streams for TRA reporting and the recent significant expansion of eligibility due to changes to the federal statute. At the April 29, 2004 single audit entrance conference, IDES mentioned that this program could, for the first time, ultimately exceed the \$30 million threshold which would make this a major program but also acknowledged that the combined total benefits and administrative expenditures were below the threshold at that time. However, it was not until we received the SEFA report in November that we found this cluster was a major program.

<u>Updated Response</u>: The GAAP reports and draft financial statements were reviewed and submitted timely to the Comptroller. There was a reconciliation of the packages to the accounting systems and reports. In addition, the Comptroller's checklist was used to ensure accuracy and reconciliation of the reports. We implemented a procedure to recheck all clusters in August to determine if any programs exceed the \$30 million threshold for inclusion of the program in the current year's audit.

04-65. The auditors recommend IDES continue to review its procedures for payment of Unemployment Insurance benefits and implement changes necessary to ensure benefits are only paid to eligible individuals.

<u>Findings</u>: The Department determined some payments were made for unemployment benefits to ineligible individuals under the Unemployment Insurance (UI) Program.

During the audit, IDES disclosed that payments were made to individuals who were not eligible to receive benefits under the UI Program. IDES officials referred the matter to outside agencies for investigative review, which is currently pending. Confidentiality requirements restrict the disclosure of information related to a pending investigation, including the amount of any overpayments. As a result, due to the timing of this audit, we were not able to apply other audit procedures to satisfy whether payments were made to eligible individuals of the UI program or to enable us to express an opinion on compliance for this program.

According to the OMB Circular A-133 Compliance Supplement dated March 2004, to be eligible to receive unemployment benefits, (1) the claimant must be in the labor force (2) the claimant's unemployment must be caused by lack of suitable work (3) the claimant must be legally authorized to work, and (4) the claimant must have met the appropriate waiting period (one week) which is the non-compensation period of unemployment in which the claimant was otherwise eligible for benefits.

In discussing these conditions with IDES officials, they stated that they will take immediate action upon completion of the investigation.

<u>Response</u>: We concur with the above finding due to the timing of this audit and the confidentiality requirement imposed for the outside investigative review. We expect the information will be available for the 2005 audit upon completion of the investigative review.

<u>Updated Response:</u> Under Study. Subsequent to the release of the SFY 2004 Single Audit, in the summer of 2005 several defendants were indicted in this fraud scheme involving false claims for unemployment benefits. The announcement of the indictments finally allowed for a thorough review and assessment of the specific details of the scheme, which were previously kept confidential to avoid jeopardizing the ongoing federal investigation. In the fall, IDES contracted with an outside firm to perform an independent review and assessment of the scheme. IDES is also currently working collaboratively with the Auditor General's office and their special assistant auditors for the Financial and Single Audits to test existing controls to confirm that the unemployment insurance program in Illinois is at low risk for fraud. Preliminary results indicate that the overall risk for fraud is indeed low; final results will be incorporated into the SFY 2005 Financial and Single Audit reports.

04-66. The auditors recommend IDES review its procedures for approving and documenting eligibility determinations in the case files and implement any changes necessary to ensure payments are made only to eligible participants. We also recommend IDES implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly approved.

<u>Findings</u>: IDES paid Trade Adjustment Assistance (TAA) benefits to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment.

During test work of the TAA beneficiary payments, the auditors selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the worker's enrollment date did not occur within 16 weeks of his/her most recent total qualifying separation date, or within 8 weeks of the issuance of the petition certification, whichever is later (the 8/16 week deadline). Benefits paid to this individual during the year ended June 30, 2004 were \$1,878.
- In six cases, IDES was unable to provide either the training agreement or waiver form. The auditors were unable to determine the worker's actual training enrollment date or date he/she was waived from training to assess compliance with the 8/16 week deadline. Benefits paid to these individuals during the year ended June 30, 2004 were \$52,188.
- In four cases, IDES was unable to provide vocational and training plans. The auditors were unable to determine the worker's entitlement to participate or to be waived from a training program. Benefits paid to these individuals during the year ended June 30, 2004 were \$3,497.
- In four cases, IDES was unable to provide training agreements and/or the appropriate waiver forms. Benefits paid to these individuals during the year ended June 30, 2004 were \$15,312.
- In twenty-six cases, IDES did not properly approve and/or date the training agreements. The Auditors were unable to determine whether: (1) the worker was enrolled in an approved training program; (2) the worker's training start date occurred before the program was approved; and (3) the worker received TRA benefit payments before the training program was approved. Benefits paid to these individuals during the year ended June 30, 2004 were \$119,356.
- In one case, IDES approved the training agreement after the training was scheduled to begin. Benefits paid on behalf of this individual during the year ended June 30, 2004 were \$5,000.

• In sixteen cases, IDES did not properly approve and/or date the vocational and training plan. The auditors were unable to determine whether: (1) the worker was enrolled in a training program before the worker's skills and employment history has been assessed and approved; (2) the training program was necessary; or (3) the worker should have been waived from participating in a training program. Benefits paid to these individuals during the year ended June 30, 2004 were \$14,765.

In discussing these conditions with the agency officials, they state that we acknowledge there was not always enough diligence taken in properly indicating the dates of approvals on various forms and in properly documenting the participant's file. Our two-step approval process was cumbersome in that documents were often sent back and forth between the local office and the region office which contributed to the condition of the local office files.

Response: IDES officially transferred the TAA program to the Department of Commerce and Economic Opportunity (DCEO) per Governor Blagojevich's Executive Order Number 11. This transfer combines all training programs under one agency. Effective with this transfer, DCEO assumed responsibility for the Vocational and Training Plans, Training Agreements and waivers other than the initial waiver that IDES may issue while the client is receiving regular unemployment insurance benefits.

While DCEO is now responsible for the TAA program, it is worth noting that IDES undertook a number of activities to ensure the program is completely in compliance with federal requirements. Some of the work included:

- updating the policy manual and forms,
- creating new waiver forms and procedures.
- assisting in the training of DCEO staff and Local Workforce Investment Area staffs,
- transferring vendors and clients to DCEO,
- conducting a 100% file review for files transferred to DCEO,
- ensuring completeness and accuracy of transferred files.
- developing internal policies and procedures regarding IDES and DCEO roles and responsibilities,
- ongoing meetings with DCEO staff and their grantees to ensure proper implementation.

IDES is confident that the TAA program and the related TRA program are in compliance with federal requirements.

The audit raised a number of specific issues related to individual cases. The audit did not request a detailed defense of these items. While we recognize that errors may have occurred, IDES believes that some of the missing documentation could be obtained if we were provided more time to respond.

<u>Auditors' Comment</u>: Program regulations require that only eligible individuals receive benefits and/or services provided under the TAA program. As noted above, IDES was not able to provide the auditors adequate supporting documentation for certain

eligibility criteria in a reasonable period of time. Additionally, as the program was transferred to another agency, we do not believe that IDES is in a position to determine that the program is in compliance with all federal requirements.

<u>Updated Response:</u> Under Study. With the assistance of Region V of the U.S. Department of Labor (DOL), Illinois is in the process of reviewing all TRA claims (approximately five thousand) filed since October 1, 2003 under the Trade Act of 2002. The first phase, which has been completed, is to review all claims in current pay status. The second phase is to review those claimants who are exhausting regular unemployment insurance (UI) benefits and will be beginning TRA and those who have either exhausted TRA or for some other reason, have stopped filing for benefits. Staff from the U.S. DOL Region have begun a follow-up review to ensure the accuracy of the state's review. If it is determined that the claimant was not in training or not waived from training within the guidelines, claimants will be interviewed and benefits stopped when appropriate.

The Federal government has not yet promulgated rules to implement the Trade Act of 2002. However, the Federal Region developed specific guidelines and a review worksheet to determine the accuracy of TRA payments. When the 100 percent review is complete, appropriate action will be taken on any inaccurate payments.

IDES procedures are being revised with guidance from Region V. A retraining session is being planned for the first week of March with staff from Region V, IDES and the Department of Commerce and Economic Opportunity (DCEO).

04-67. The auditors recommend IDES implement procedures to ensure supporting documentation can be provided for the ETA 9002 and the VETS 200 performance reports.

<u>Findings</u>: IDES was unable to provide documentation to support information reported in the ETA 9002 and the VETS 200 performance reports.

The ETA 9002 and the VETS 200 performance reports are used to report services, activities, and outcomes of service for all job seekers and veterans. These reports are required to be submitted quarterly, and are used to assess a State's success in meeting its performance goals. The reports include data from the Illinois Skills Match (ISM) system and the Unemployment Services Wage Information System (WIS). IDES uses a report writer, the DART reporting system, to accumulate the data from the ISM and WIS systems into the format required for the reports. This data is then submitted electronically through the USDOL's Employment and Training Administration's web-based reporting system. The auditors are required by the OMB Circular A-133 compliance supplement to test key line items in these reports; however, IDES was unable to provide detail information supporting the accumulation of data in these key line items.

In discussing this with IDES personnel, they stated the DART Reporting subsystem was a new system and we failed to back up the data for an adequate period to allow for retrieval of information.

<u>Updated Response</u>: Accepted. IDES modified its computer processing schedules that are used to create the ETA 9002 and VETS 200 Performance Reports. This change was effective for the reporting quarter ended September 30, 2004. A copy of the quarterly extract file of data from the Illinois Skills Match system is now created and archived prior to being downloaded to the DART Reporting subsystem, a server based reporting application used to produce the federal reports. Illinois is among 25 states using the DART software to comply with federal reporting requirements. The auditors were provided a copy of the June 30, 2005 extract file for testing the reports during the current year's audit (SFY 2005) in progress. As of this writing, ongoing efforts are being made by IDES and the auditors to satisfy the compliance requirements of OMB Circular A-133 pertaining to these reports.

04-68. The auditors recommend IDES implement procedures to ensure cash draws are made in accordance with the U.S. Treasury Regulations. (Repeated-2003)

<u>Findings</u>: IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

During the year ended June 30, 2004, IDES drew down funds using the modified payment schedule method, a common funding technique prescribed in the TSA, for the Employment Services Cluster. This method requires that the amount of the cash request should be a prorated share of the lesser of (1) the annual grant divided by 24, or (2) the total amount of Federal funds expected to be paid out for program purposes during the year divided by 24. However, this program was not included in the TSA.

In discussing this with IDES personnel, they stated that they considered this matter closed because they had complied with the auditors' request to consult with the U.S. Treasury and consider including the program in the Treasury-State Agreement.

<u>Updated Response</u>: Implemented. We have had several communications through our state Cash Management Improvement Act (CMIA) representative to resolve this finding. We requested to lower the \$60 million threshold, as permitted in CMIA regulations, to facilitate the inclusion of the Employment Services (ES) Cluster in Illinois' Treasury-State Agreement (TSA) or to amend the TSA to include ES without affecting any other federal program in Illinois. The preference of the CMIA representative was to seek approval of our current methods from the U.S. Treasury - Financial Management Services (FMS) rather than an amendment to the TSA. Our request for consent by FMS to continue to use the funding technique for Federal assistance programs (i.e., Employment Services) under Subpart B as prescribed in the TSA for the Unemployment Insurance Program received a favorable response. However, the auditors subsequently felt we were still not in compliance with Subpart B of 31CFR 205.33. As a result of this, the CMIA representative sought to amend the TSA to include ES, but FMS refused to accept the amendment. Thus

we have changed our method of drawing funds effective June 23, 2005, so that we are now in compliance with U.S. Treasury Regulations in a manner acceptable to the auditors. The amount drawn is the amount by which total vouchers exceed the cash amount as reflected on the agency's Daily Cash Position Report.